Summer 2000 Issue

Making Cents

A Quarterly Update of the CalPERS 457 Deferred Compensation Program

457 PROGRAM YEAR IN REVIEW

As we begin a new fiscal year, we congratulate you on another year of saving for your retirement! Those of you who have participated in the CalPERS 457 Deferred Compensation Program for awhile are already aware of the many advantages this program offers, including its immediate tax savings and the ability to earn good returns in CalPERS funds offered at low cost. If you are new to the program, we hope you too will come to appreciate the program's value and service.

Our commitment to you as a participant is to continually improve the program to keep it responsive to your need for quality investment products and services delivered at low cost. One year ago, we successfully initiated a number of improvements that we believe highlight this commitment:

- To achieve even better investment performance from our core funds, we made several adjustments to our core fund line-up including the addition of the Russell 2000 Equity Index Fund, and a restructuring of the Asset Allocation Funds to track domestic and international bond and equity indexes.
- To allow greater investment flexibility, we revised the rules for participating in the Self-Managed Account (SMA). Now, if your employer offers the SMA option, you can move money between the core funds and the SMA with just a minimum balance of $1,000 held in the core funds.
- To expand customer service, we placed even more plan representatives in the field to consult with you personally about your retirement needs. We also launched a new Web site with expanded retirement education features and live account transaction capabilities that enable you to manage your deferred compensation account over the Internet.

Continued on p.4

How Long to Double Your Money?

The "Rule of 72" says that 72 divided by your annual rate of return equals the number of years it will take to double your money. So if your investments are averaging 8 percent per year, it will take about nine years for your money to double (72 / 8 = 9). The "Rule of 72" assumes a fixed annual rate of return and the reinvestment of all your interest, dividends and capital gains.

Source: Financial Literacy Center

FDIC-Insured Certificates of Deposit

CalPERS has selected State Street Bank to offer FDIC insured certificates of deposit. State Street Bank has developed a unique array of CDs that include fixed-rate products and variable-rate equity-linked products. The Equity-Linked CDs offer investors the security of FDIC insurance, guaranteed principal and the upside potential of the equity market. These FDIC-insured options include:

- Guaranteed CD - For conservative investors, the Guaranteed CD offers FDIC insured principal, a guaranteed rate of return, and one, two or three year maturity options.
- Guaranteed CD Plus - For moderate investors, the Guaranteed CD Plus offers FDIC insured principal, and a guaranteed preset floor rate plus the opportunity to increase the return by 35 percent of the average appreciation of the S&P 500 Index over three years.
- Guaranteed CD Max - For more aggressive investors, the Guaranteed CD Max offers FDIC insured principal and the opportunity for the highest rate of return based on 100 percent of the average appreciation of the S&P 500 Index over three years.

8 Investment Tips for the Long Haul

1. Start now, if you haven't already. The sooner you start investing, the more time your money will have to grow.
2. Invest regularly. Dollar-cost averaging, or investing the same amount of money regularly, has proven to be a better strategy than trying to "time" the market.* Invest a fixed amount each month, regardless of what the markets are doing.
3. Set long-term investment goals. You'll be less likely to get "sidetracked" by investments that aren't right for you.
4. Diversify. This means having the best possible "mix" of investments for your age, objectives and other unique circumstances. Your financial professional can recommend the combination of investments that's best for you.
5. Look at percentages, not dollars. Say one of the mutual funds in your 401(k) loses $500 in value. Sounds awful! But if your 401(k) is worth $10,000, that's only a 5 percent dip.
6. Expect bumps. You're investing for the long haul, so don't worry about day-to-day ups and downs. History shows that over time (five years or more), markets tend to rise.
7. Take risks. The greater the risk, the greater the potential reward. Stock funds, for example, are more volatile than "safe" investments, such as certificates of deposit (CDs), yet in the long run, they usually yield much higher returns.
8. Invest in a qualified retirement plan. When you invest in a 401(k), you're usually investing pre-tax dollars. That means less tax is taken out of each paycheck. You are able to invest money that used to go to Uncle Sam.

***Dollar-cost averaging does not guarantee a profit, nor does it protect against loss in declining markets.**

Source: Financial Literacy Center

FUND PERFORMANCE

CalPERS 457 Deferred Compensation Performance Report

(as of May 31, 2000)

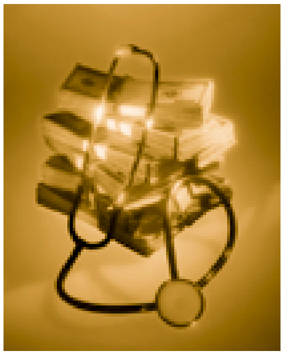
	1 Year	**Since Inception**	**Inception Date of Fund**
Core Investment Funds			
Money Market Fund	4.36%	4.29%	8/91
Stable Fixed Income Fund	5.48%	4.96%	2/95
Bond Fund	2.97%	6.52%	8/91
S&P 500 Equity Index Fund	10.12%	17.33%	11/91
Active Large Cap Equity Fund	20.64%	24.32%	2/95
Russell 2000 Index Fund	N/A	N/A	7/99
Active Small Cap Equity Fund	31.52%	15.07%	4/95
International Equity Fund	37.13%	7.76%	4/95
Conservative Allocation Fund	4.55%	9.09%	2/95
Moderate Allocation Fund	6.25%	12.45%	4/95
Aggressive Allocation Fund	9.87%	11.32%	4/95
FDIC Insured Investments			
Insured Money Market Account	2.68%	N/A	10/96
Certificates of Deposit		***04/01/00***	***01/01/00***
One Year Guaranteed CD-Simple Interest		6.25%	5.50%
Two Year Guaranteed CD-Simple Interest		6.65%	5.75%
Three Year Guaranteed CD-Simple Interest		6.75%	5.85%
Guaranteed CD Plus-3 Year		2.00%	2.00%
Guaranteed CD Max.-3 Year	*Rate Not Applicable*		

Returns shown are net of investment management and plan level expenses. Historical performance is not necessarily indicative of actual future investment performance, which could differ substantially. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the contributions to your individual account.

Ways to Reduce Money Stress

- Make a spending plan and live within it.
- Pay bills as they come in rather than waiting until a few days before they're due.
- Keep your checkbook balanced so you don't overspend.
- Record credit card purchases in a separate ledger, so you'll know how much money you really have.
- Before making an expensive purchase, ask yourself if you really need the item.
- Discuss financial problems or concerns with your family before they get out of control.

Source: Financial Literacy Center



Stay Healthy With a Midyear Financial Checkup

Summer is a good time to reassess your finances and make sure you're on the road to financial health. How do you shape up?

Could you be saving more? Did you get a raise, have a child move out, or pay off a loan recently? With more disposable income, you have a golden opportunity to increase your contribution to your 457/401(k)/403(b) or other savings plan.

Are you paying too much tax? If you've taken out a mortgage this year, had a baby, or added an elderly parent as a dependent, you may be having too much tax withheld. Keep that money in your own pocket by filing an adjusted Form W-4 with your payroll department.

Have you made a dent in your debt? If your credit card balances have been getting heavier, better act now to slim them down with an aggressive repayment plan.

Are your investments properly balanced? If uneven performance in different asset classes such as stocks and mutual funds has left you with a lopsided portfolio, your asset allocation strategy can't work right. Now's the time to rebalance, by exchanging whatever you have too much of for whatever you have too little of.

Have family changes outdated your estate plan? Marriage, divorce, or a death in the family may require changing the beneficiaries on retirement savings plans, pensions, and life insurance.

Source: Financial Literacy Center

CHOICES

FDIC-Insured Money Market Account

This fund functions as a depository for the accumulation of assets for investment in Certificates of Deposit (see page 2). The fund also serves as the funding vehicle for administration fees applied against assets invested in Certificates of Deposit and the Self-Managed Account.

Continued from p.2

- To continue sharing CalPERS' low costs with you, we reduced our administrative fees by 63 percent across the board to all participants. The total cost to participate in our program has always been under 1 percent. With the fee reduction we introduced last July, the average participant in the CalPERS plan now pays just .64 percent per year to be in the plan.

We hope you've noticed the difference in improved service, performance and low cost. You can look forward to more of the same in the coming year.

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CalPERS 457 Deferred Compensation Program

California Public Employees' Retirement System

Supplemental Savings Programs
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Making Cents is published quarterly for CalPERS 457 Deferred Compensation Program. The newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisers.

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